

## Message Text

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ACTION ARA-14

INFO OCT-01 ISO-00 EB-08 SOE-02 AID-05 CEA-01 CIAE-00  
COME-00 DODE-00 DOE-15 H-01 INR-10 INT-05 L-03  
NSAE-00 NSC-05 OMB-01 PM-05 ICA-11 OES-07 SP-02  
SS-15 STR-07 TRSE-00 ACDA-12 PA-01 /131 W  
-----010717 070357Z /61

R 052013Z APR 78

FM AMEMBASSY LIMA

TO SECSTATE WASHDC 9447

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E.O. 11652: N/A

TAGS: ENRG, PE

SUBJECT: PETROPERU AND OCCIDENTAL SIGN TWO OPERATING CONTRACTS

REF: LIMA 2466

BEGIN UNCLASSIFIED

1. AS ANTICIPATED (SEE REFTEL) PETROPERU AND OCCIDENTAL (OXY) APRIL 3 SIGNED TWO NEW OIL OPERATING CONTRACTS, ONE FOR EXPLOITATION OF BLOCK 1-B IN THE NORTHER PERUVIAN JUNGLE AND THE OTHER ONE FOR SECONDARY RECOVERY IN THE LOBITOS, EL ALTO AND LOS ORGANOS FIELDS IN NORTHWESTERN PERU. IN THE SECONDARY RECOVERY OPERATIONS OXY WILL WORK IN ASSOCIATION WITH THE ARGENTINE COMPANY BRIDAS EXPLORACIONES Y PRODUCCION S.A.

2. CONTRACT FOR BLOCK -1-B WILL HAVE A DURATION OF 30 YEARS AND THE PRODUCTION SPLIT WILL BE BASICALLY 50-50. HOWEVER, OXY WILL BE GRANTED AN ADDITIONAL PRODUCTION SHARE TO COMPENSATE IT FOR THE LARTER INVESTMENTS AND OPERATING COSTS THAT WILL BE REQUIRED BY THE EXPLOITATION OF THE HEAVY CRUDES IN BLOCK 1-B END UNCLASSIFIED.BEGIN LIMITED OFFICIAL USE.

A RELIABEL SOURCE HAS INFORMED THE EMBASSY THAT THE

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SPLIT FOR HEAVY CRUDE (UP TO 16 API) WILL BE AS FOLLOWS:

(A) UP TO 12 MILLION BBLS: OXY 75 PERCENT - PETRO 25 PERCENT  
(B) OVER 12 AND UP TO 20 MILLION BBLS: OXY 70 PERCENT PETRO 30 PERCENT

(C) OVER 20 AND UP TO 30 MILLION BBLS: OXY 60 PERCENT - PETRO 40 PERCENT

(D) OVER 30 MILLION BBLS: OXY 50 PERCENT - PETRO 50 PERCENT.  
WHENEVER THE CRUDE'S GRAVITY EXCEEDS 16 API, SPLIT WILL BE  
50-50. END LIMITED OFFICIAL USE.

3. BEGIN UNCLASSIFIED - ACCORDING TO A COMPANY SOURCE  
OXY PLANS TO INVEST ABOUT \$150 MILLION OVER THE NEXT TWO  
YEARS IN ITS JUNGLE EXPLORATION ACTIVITIES IN BLOCKS 1-A  
AND 1-B.

4. AS REPORTED EARLIER BLOCK 1-B, AN AREA OF ONE MILLION  
HECTARES LOCATED IMMEDIATELY EAST OF OXY'S BLOCK 1-A, ALONG  
THE ECUADORIAN BORDER, WAS FORMERLY UNDER CONTRACT WITH  
UNION/TENNECO. UNION DRILLED 4 EXPLORATORY WELLS DURING  
1974-75 AND FOUND ONLY HEAVY GRAVITY (10 API) OIL WHICH WAS  
NOT PROFITABLE TO PUMP. OXY PLANS TO MIX THIS OIL WITH SOME  
FROM ITS BLOCK 1-A AREA (20 TO 40 API) IN ORDER TO EXPLOIT  
THE 1-B DEPOSITS.

5. THE SECONDARY RECOVERY CONTRACT IS FOR 15 YEARS WITH  
A PRODUCTION SPLIT OF 51 PERCENT FOR PETROPERU AND 49 PERCENT FOR OXY  
/  
BRIDAS. ESTIMATED INVESTMENT IN THIS PROJECT IS ABOUT \$150 MILLION  
OVER THE NEXT FOUR YEARS. ACCORDING TO PETROPERU OFFICIALS  
SECOND RECOVERY WORKS ARE EXPECTED TO PRODUCE AN AD-  
DITIONAL 100 MILLION BARRELS FROM THE OLD FIELDS OVER  
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THE LIFETIME OF THE CONTRACT. IT IS ESTIMATED THAT THE  
FIRST FLOWS FROM THIS OPERATION WILL BEGIN IN ABOUT 1-1/2  
YEARS.

COMMENT: APART FROM THE ADDITIONAL CRUDE PRODUCTION AND  
THE RESULTING FOREIGN EXCHANGE EARNINGS, THESE NEW CON-  
TRACTS ALSO PROVIDE PERU WITH A PSYCHOLOGICAL BOOST AT A  
CRUCIAL POINT DURING THE CURRENT ECONOMIC/FINANCIAL CRISIS.  
IT IS HOPED THAT THE SIGNING OF THESE CONTRACTS WILL  
GENERATE INTEREST AMONG OTHER OIL COMPANIES TO SEEK NEW  
OPERATING CONTRACTS FOR BOTH THE CONTINENTAL SHELF AND  
THE JUNGLE. MOST FOREIGN CONTRACTORS HAVE HAD A "WAIT AND  
SEE" ATTITUDE REGARDING THE TERMS AND CONDITIONS OXY WOULD  
OBTAIN IN THE FIRST CONTRACT UNDER THE NEW PETRO-  
LEUM NEGOTIATING SYSTEM. ONCE THE TERMS OF THE CONTRACT  
ARE MADE PUBLIC, SOME OF THE COMPANIES THAT HAVE BEEN WAITING  
IN THE WINGS MAY SHOW MORE ACTIVE INTEREST IN OPENING  
OPERATIONS IN PERU.

6. WE HAVE BEEN INFORMED THAT OXY CONTRACTS WILL  
BE PUBLISHED AT SOME UNSPECIFIED FUTURE DATE. AT THAT TIME WE  
WILL POUCH COPIES TO DEPARTMENT (ARA/AND-KEMP).  
SHLAUDEMAN

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## Message Attributes

**Automatic Decaptoning:** X  
**Capture Date:** 01 jan 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** PETROLEUM INDUSTRY, CONTRACTS, EXPLORATORY DRILLING, EXPLOITATION (NATURAL RESOURCES), PRODUCTION DATA  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 05 apr 1978  
**Decapton Date:** 01 jan 1960  
**Decapton Note:**  
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**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 20 Mar 2014  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1978LIMA02900  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Expiration:**  
**Film Number:** D780150-0021  
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**Message ID:** 5c12eeb5-c288-dd11-92da-001cc4696bcc  
**Office:** ACTION ARA  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 3  
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**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** 78 LIMA 2466  
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**Review Event:**  
**Review Exemptions:** n/a  
**Review Media Identifier:**  
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**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**SAS ID:** 3070490  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** PETROPERU AND OCCIDENTAL SIGN TWO OPERATING CONTRACTS  
**TAGS:** ENRG, PE, PETROPERU, OCCIDENTAL  
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**Review Markings:**  
Sheryl P. Walter  
Declassified/Released  
US Department of State  
EO Systematic Review  
20 Mar 2014  
**Markings:** Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014